



CONGRESSIONAL BUDGET OFFICE  
U.S. CONGRESS  
WASHINGTON, D.C. 20515

JOHN E. O'NEILL  
Director

April 28, 1998

Honorable Pete V. Domenici  
Chairman  
Committee on the Budget  
United States Senate  
Washington, DC 20510

Dear Mr. Chairman:

As you requested in your letter dated April 27, 1998, CBO has prepared answers to three questions regarding the Highway Trust Fund and the pending reauthorization of the Intermodal Surface Transportation Efficiency Act (ISTEA). The questions and our answers are as follows:

*1. Why are gas tax receipts not an offset to ISTEA spending?*

The federal budget distinguishes between receipts and expenditures, and receipts are generally not treated as offsets to expenditures. Transportation excise taxes are recorded as governmental receipts (that is, on the revenue side of the ledger) because they stem from the government's sovereign power to tax, and spending for transportation programs is recorded as an expenditure (that is, on the outlay side). An equal increase in excise taxes and transportation spending would add to both receipts and expenditures but would have no effect on the surplus or deficit (which is the difference between the two).

Revenues and outlays are subject to different control mechanisms under the Balanced Budget and Emergency Deficit Control Act of 1985. Most of the ISTEA outlays are discretionary—subject to annual obligation limitations in appropriation acts—and thus fall under the discretionary caps. The excise taxes, in contrast, are subject to the pay-as-you-go mechanism; changes in

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such taxes can only be offset, for pay-as-you-go purposes, by changes in other revenues or in direct spending that are enacted in authorizing bills.

In implementing Congressional budgetary control procedures, the impact of legislation is measured by the changes it would cause to revenues and outlays. Both S. 1173 and H.R. 2400 would have only modest effects on revenues over the next five years but would substantially increase spending for surface transportation programs (assuming appropriation action consistent with the bills). Thus, even if the separate budgetary categories did not exist, the small changes in revenues resulting from S. 1173 or H.R. 2400 would not offset the additional spending.

*2. Why is the current Highway Trust Fund cash balance not an offset to ISTEA spending?*

The trust fund's cash balance is the difference between all the amounts that have already been deposited into the fund (from tax receipts and interest) and all the sums that have been spent from the fund. Both of these amounts have already been recorded on the government's books—as revenues and outlays, respectively. Thus, the cash balance in the trust fund reflects tax revenues that the government has already received and has counted in calculating the budget deficit or surplus. Counting the balance as an offset to spending would have the effect of counting revenues twice.

*3. Why is reducing or eliminating the current cash balance in the Highway Trust Fund not an offset to ISTEA spending?*

The cash balance of the Highway Trust Fund plays no part in calculating the deficit or surplus because it is neither a receipt nor an expenditure. It is simply a summary of previous budgetary transactions—the prior deposits into the fund less the prior spending out of the fund. Eliminating or reducing the cash balance without changing federal spending or revenues, for example, by shifting money out of the trust fund and into the general fund of the Treasury, would have no effect on the surplus or deficit.

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Similarly, changing the amount of interest paid to the trust fund would have no net budgetary impact. Interest payments on trust fund balances are recorded as outlays from the general fund and offsetting receipts to the trust fund, with no effect on total outlays and on the deficit or surplus.

If you wish further details regarding these answers, we will be pleased to provide them. The CBO staff contact is Pete Fontaine, who can be reached at 226-2860.

Sincerely,

A handwritten signature in black ink, appearing to read "June E. O'Neill". The signature is fluid and cursive, with a long horizontal stroke extending to the left.

for

June E. O'Neill  
Director

cc: Frank R. Lautenberg  
Ranking Minority Member

John H. Chafee  
Chairman  
Senate Committee on Environment and Public Works

Max Baucus  
Ranking Minority Member  
Senate Committee on Environment and Public Works

John McCain  
Chairman  
Senate Committee on Commerce, Science, and Transportation

Ernest F. Hollings  
Ranking Democrat  
Senate Committee Commerce, Science, and Transportation

Alfonse M. D'Amato  
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Senate Committee on Banking, Housing, and Urban Affairs

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Ranking Minority Member  
House Committee on Transportation and Infrastructure

Bill Archer  
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House Committee on Ways and Means

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Charles B. Rangel  
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Tom Bliley  
Chairman  
House Committee on Commerce

John D. Dingell  
Ranking Minority Member  
House Committee on Commerce